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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 12/27/07

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#### ARTICLES:

(1) Poll on Fukuda cabinet, political parties, pension record-keeping flaws, MSDF Indian Ocean refueling legislation

ASAHI (Page 4) (Full)  
December 21, 2007

#### Questions & Answers

(Figures shown in percentage, rounded off. Bracketed figures denote proportions to all respondents. Figures in parentheses denote the results of the last survey conducted Dec. 1-2.)

Q: Do you support the Fukuda cabinet?

Yes 31 (44)  
No 48 (36)

Q: Why? (One reason only. Left column for those marking "yes" on previous question, and right for those saying "no.")

The prime minister is Mr. Fukuda 23(7) 7(3)  
It's an LDP-led cabinet 29(9) 24(12)  
From the aspect of policies 19(6) 57(28)  
No particular reason 25(8) 10(5)

Q: Which political party do you support now?

Liberal Democratic Party (LDP) 27 (31)

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Democratic Party of Japan (DPJ or Minshuto) 25 (23)  
New Komeito (NK) 3 (4)  
Japanese Communist Party (JCP) 2 (2)  
Social Democratic Party (SDP or Shaminto) 1 (2)  
People's New Party (PNP or Kokumin Shinto) 0 (0)  
New Party Nippon (NPN or Shinto Nippon) 0 (0)  
Other political parties 1 (0)  
None 33 (31)  
No answer (N/A) + don't know (D/K) 8 (7)

Q: There are pension records remaining unclear for 50 million persons, and the government has now found it difficult to identify about 20 million persons. In this July's election for the House of Councillors, the government and ruling parties said the government would check up all the unclear records by March next year. Then Prime Minister Abe also maintained that the government would check all persons to the last one and pay pensions without fail. It is now difficult to identify a large number of persons. Do you think this breaks a public pledge?

Yes 60  
No 30

Q: Do you appreciate the Fukuda cabinet's efforts on the issue of pension record-keeping flaws?

Yes 36  
No 46

Q: Do you expect the Fukuda cabinet to dissolve public distrust in the nation's pension system?

Yes 17  
No 72

Q: The U.S. and other countries have sent naval vessels to the Indian Ocean for antiterror operations in Afghanistan. The Antiterrorism Special Measures Law, which was for the Self-Defense Forces to back up their naval operations in the Indian Ocean, expired on Nov. 1, and the SDF discontinued its activities there. Do you think Japan should resume SDF activities there?

Yes 37 (44)  
No 48 (44)

Q: The government has presented a bill to create a new law replacing the Antiterrorism Special Measures Law, and the bill is now being discussed in the Diet. This legislation limits SDF activities in the Indian Ocean to fuel and water supply for a period of one year, and it does not require the government to ask the Diet for its approval of SDF activities there. Do you support this legislation?

Yes 34 (36)  
No 44 (43)

Q: If this legislation is voted down in the House of Councillors, the ruling coalition is thinking of revoting on it in the House of Representatives to enact it into law with a concurring majority of two-thirds or more. Do you think it is appropriate to do so?

Yes 37 (46)  
No 43 (37)

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Q: Do you think the House of Representatives should be dissolved as soon as possible for a general election, or do you otherwise think there is no need to do so?

Dissolve as soon as possible 39 (34)  
No need to do so 48 (55)

Q: If you were to vote now in a general election, which political party would you like to vote for in your proportional representation bloc?

LDP 23 (32)  
DPJ 38 (32)  
NK 3 (4)  
JCP 3 (3)  
SDP 1 (2)  
PNP 0 (1)  
NPN 0 (0)  
Other political parties 1 (1)  
N/A+D/K 31 (25)

Q: Would you like the current LDP-led coalition government to continue, or would you otherwise like it to be replaced with a DPJ-led coalition government?

LDP-led coalition government 28 (37)  
DPJ-led coalition government 41 (36)

Polling methodology: The survey was conducted Dec. 19-20 over the telephone on a computer-aided random digit dialing (RDD) basis. Respondents were chosen from among the nation's voting population on a three-stage random-sampling basis. Valid answers were obtained from 939 persons (58 PERCENT ).

(2) U.S. activating lobbying, making policy proposals; ACCJ playing pivotal role; Lessons learned from past trade friction

SANKEI (Page 11) (Full)  
December 27, 2007

It has often been said that Japan-U.S. economic relations have been in a lull over the past several years. However, U.S. companies are, in fact, strengthening their approach to the Japanese government. Behind the move is a lesson learnt from the trade disputes of the 1980s and 1990s, namely, that it is more effective to exercise influence at the policy-planning stage. The American Chamber of Commerce and Industry in Japan (ACCJ, located in Minato Ward in Tokyo) is playing a pivotal role in making such an approach to the Japanese government. The procedure is that the ACCJ makes policy proposals on center stage, and specific companies lobby the network of politicians, bureaucrats and business leaders in both Japan and the United States. C.E.O.s of each American company operating in

Japan are busy building personnel networks, and lobbying in Japan is seen as a new frontier.

"Japanese legislators and the ACCJ shared the same keen awareness of the problem. For example, should we enter into a free trade agreement (FTA) between the two countries? Or how should we bring the economies and societies of both countries together?"

James Foster, chairman of the Government Relations Committee of the  
TOKYO 00005668 004 OF 015

ACCJ visited 74 Japanese lawmakers in late October this year, accompanied by with 50 senior officers, including ACCJ President Charles Lake. This was the traditional Diet Doorknock, aimed at exchanging views on Japan-U.S. relations and making policy proposals.

Unlike the 1990s, when much energy was spent in dealing with trade friction involving such trade items as textiles, autos and computer chips, bilateral economic issues have decreased as Japan has expanded direct investment in the U.S. The two countries launched a sub-cabinet-level economic dialogue in 2001 with the aim of eliminating the causes of trade disputes beforehand. Outwardly, there seem to be no major trade issues with the exception of the U.S. call for an expansion of imports beef by Japan. However, a skirmish is continuing behind the scenes.

The ACCJ makes policy proposals to the governments of Japan and the U.S. Lobbyists in the private sector see them as business opportunities. A Japanese trailblazing pioneer, who now works at a foreign investment bank in Japan, categorically said, "Demands for lobbyists will increase in Japan in the future." That is because interest in lobbying is heightening, following the liberalization of the Japanese market to foreign companies as a result of deregulation.

Lobbyists' major jobs include: (1) finding government-affiliated business (such as obtaining the post of lead managing underwriter and consultant); (2) talks with regulators, such as the Financial Services Agency; (3) responses to international financial regulations; and (4) analyzing the political situation.

Yukiko Tokai, former manager of the government relations department of UPS Japan, the largest package delivery company in the world, and now manager of the energy affairs department of GE, underscored the following, based on her own lobbying activities: "Nobody would approach foreign companies if they keep quiet. However, they can do something before bills secure Diet approval. Just making proposals will not do. It is important to hold talks with policy makers."

When postal services were privatized, her request that the Express Mail Service (EMS) system should be treated equally with products provided by private international express service operators. However, another request from the ACCJ for a revision of the tariff law coincided with moves by the Finance Ministry, and so was implemented. International mail with a value of over 200,000 yen became subject to import and export applications as is the case for the private express companies.

The ACCJ and the U.S. Embassy in Japan play the role of linking lobbyists. Foster stressed the importance of personnel networks, noting, "The ACCJ has memberships of various Japanese organizations. It is not the only entity through which foreign companies make proposals to the Japanese company." Lobbying by U.S. companies is multi-tiered and their policy-related approach has become more effective.

(3) Nikko to become subsidiary of Citigroup - first case of successful triangular merger

NIKKEI (Top Play) (Excerpts)  
Evening, December 19, 2007

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In its extraordinary shareholders meeting today, the Nikko Cordial Group announced its plan to become a wholly owned subsidiary of U.S. bank Citigroup Inc. through an equity swap. The company used for the first time the triangular-merger formula, the ban on which was lifted in May, and obtained approval in the meeting. About 30,000 shareholders will have their stock swapped for Citigroup shares at the end of January. Citigroup, which has posted large losses related to subprime mortgage loans, is ready to strengthen its marketing strategy in Japan, with Nikko Cordial playing the leading role.

In a speech at the outset of the meeting, Nikko Cordial President Shoji Kuwashima said: "We aim to make our company a comprehensive financial services provider through the tie-up with Citigroup when customer needs are diversifying." Asked about the effectiveness of the tie-up, Douglas Peterson, chief executive officer of Citigroup Japan Holdings Ltd., replied: "We will come up with specific measures next year or later. Japan is one of the most important countries in our global strategy."

(4) 23 bills to be enacted under divided Diet; Ruling coalition modifies bills to make compromises with DPJ

NIKKEI (Page 3) (Full)  
December 27, 2007

Even though the current extraordinary Diet session has been conducted under a divided Diet, in which the opposition camp controls the House of Councillors, all the government-sponsored bills are expected to be enacted. Although the ruling and opposition camps are at odds over a bill to resume the Maritime Self-Defense Force's refueling mission, the ruling coalition has made some concessions to the Democratic Party of Japan (DPJ or Minshuto), which is the largest force in the Upper House, in order to get the bills through the Diet.

As of Dec. 26, 13 government-sponsored bills and 10 bills sponsored by lawmakers have cleared the Diet. All the new bills submitted by the government to the ongoing session, excluding the bill to resume the MSDF refueling mission, have been enacted. The ruling and opposition camps passed most of them by making compromises.

On the issue of amending the law to support the livelihoods of disaster victims, the ruling coalition submitted its own bill to the Lower House, while the DPJ presented its own bill to the Upper House. The two sides set up a consultative panel to modify the two bills. The ruling camp and the DPJ then enacted the unified bill. Placing importance on an early enactment, the ruling camp accepted all requests by the DPJ on a government-sponsored bill to revise the Broadcast Law. The DPJ had opposed the bill, arguing that imposing administrative punishment on broadcasting companies meant intervention in freedom of expression. The ruling coalition accepted the DPJ's assertion in order to enact the bill.

The government and ruling camp will likely ram the bill resuming the MSDF refueling operation through the Diet at the end of the session. With an eye on a possible rejection of the bill by the Upper House, the government extended again the current Diet session until Jan. 15 in order to have time to act again on it in the Lower House. There is a rule that if the Upper House fails to take a final action within 60 days after it received a bill from the Lower House, the lower chamber may take this to constitute a rejection of the bill by the upper chamber. The ruling coalition intends to readopt the MSDF

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bill with a two-thirds lower chamber majority override vote. It is now therefore certain that the bill will be enacted during the current Diet session.

However, it is not that easy to use such a rule since the opposition camp is expected to toughen its adversarial stance toward the ruling bloc by submitting a censure motion against Prime Minister Yasuo Fukuda.

The opposition camp approved a bill revising the law to secure the safety of consumer products, acknowledging the need for a revision

of the law.

Meanwhile, the DPJ has yet to take advantage of its being the largest force in the Upper House. Although it submitted to the Upper House 13 bills, including one to compensate farmers for their incomes and a child allowance bill, five bills cleared the upper chamber but only one bill to revise the law to support the livelihoods of disaster victims was enacted. Deliberations on most bills have yet to begin.

The focus is now on a bill to help all hepatitis C patients. The DPJ has taken a stance of cooperating with the ruling camp, which is now drafting a bill, but coordination will only now start.

(5) Iwakuni mayor quits to run again; City's administration malfunctions; Mayor ambivalent over U.S. military realignment

YOMIURI (Page 18) (Abridged)  
December 27, 2007

Iwakuni Mayor Katsusuke Ihara is now expected to resign tomorrow over the realignment of U.S. forces in Japan. Ihara has been raising an objection to the government's proposal of redeploying carrier-borne fighter jets from the U.S. Navy's Atsugi Naval Air Station in Kanagawa Prefecture to the U.S. Marine Corps' Iwakuni Air Station in the city of Iwakuni, Yamaguchi Prefecture.

"I can no longer leave the citizens troubled by continuing a useless dispute (with Iwakuni City's municipal assembly)." With this, Ihara expressed his resignation in a plenary meeting yesterday of his city's municipal assembly.

The city of Iwakuni is now wavering over the government-proposed redeployment of Atsugi-based carrier-borne fighter jets to the Iwakuni base. In the city, confrontation is intensifying between Ihara and pro-redeployment municipal assembly members. Furthermore, the government, upset at Ihara's anti-redeployment stance, has stopped subsidizing the city's project of constructing a new office building. This pressure caused the city's administration to malfunction, with its budget failing to get the assembly's approval. As it stands, the city's budget for next fiscal year cannot get through the assembly. Ihara, driven into a tight corner, appealed to the city's voting population.

In October 2005, the Japanese and U.S. governments released an interim report on the realignment of U.S. forces in Japan, incorporating an agreement to redeploy carrier-borne fighter jets from Atsugi to Iwakuni. In March 2006, Ihara conducted a poll of residents in the city of Iwakuni before its consolidation with neighboring municipalities. In the local referendum, anti-redeployment votes accounted for 87 PERCENT of all votes cast

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by the city's voting population. In April that year, Iwakuni held its first mayoral election after its consolidation. In the mayoral race as well, Ihara won an overwhelming victory. Ihara stepped up his anti-redeployment stance. In October last year, the city held an election for its municipal assembly. After that, there was an increase in the proportion of pro-redeployment assembly members. At present, those in favor of redeployment account for a majority.

Meanwhile, Iwakuni, based on a 1996 agreement of the Special Action Committee on Facilities and Areas in Okinawa (SACO), consented to accept the transfer to Iwakuni of air tankers from the U.S. Marine Corps' Futenma Air Station in the city of Ginowan, Okinawa Prefecture. The city's new office building is under construction with state subsidies given in return for its acceptance of air tankers. Subsidies from the state coffers for Iwakuni up to last fiscal year totaled 1.4 billion yen. In December last year, however, the government called off its remaining subsidization of 3.4 billion yen for the current fiscal year due to the city's opposition to the redeployment of carrier-borne aircraft.

Iwakuni City's municipal government therefore planned to issue fund-raising special bonds in order to make up for the cost of constructing its new office building. However, the city's municipal

assembly voted down this initial general account budget plan. "The city can get no subsidies. The responsibility rests with the mayor who remains opposed to the redeployment of carrier-borne aircraft." With this, the assembly laid the onus on the mayor. The city's municipal government proposed a total of four similar budget plans up to November. However, the assembly rejected them all. It is unusual that the government's security policy affects the administration of a local city.

In October, Ihara met with Parliamentary Defense Secretary Minoru Terada at the Defense Ministry to resolve such a situation. "If the government provides subsidies, I will once haul down the anti-redeployment flag." With this, Ihara gave way to Terada. In November, Ihara showed a flexible posture to the Defense Ministry's Chugoku-Shikoku bureau. He then took up the issue of reviewing the Japan-U.S. Status of Forces Agreement (SOFA) to fully ensure Japan's investigative authority on U.S. military personnel's crimes. "If we can get a convincing solution," he told the bureau, "then I will accept the redeployment of carrier-borne aircraft." However, there was no positive answer from the government.

Iwakuni will likely announce a mayoral election in late January and elect its new mayor in late February. Ihara will run again. The municipal assembly's pro-redeployment members are also ready to field a candidate against Ihara. The race is expected to get hard going. Moreover, the city's voting population will also be called to show a judgment on the U.S. military's realignment in Japan.

The process of realigning U.S. forces in Japan is indispensable for Japan and the United States to maintain their mutual confidence as allies. The government is required to carry it out in a steady way while fulfilling its accountability. Meanwhile, it is only natural that local residents are worried about the possible deterioration of noise pollution with carrier-borne aircraft being redeployed to the Iwakuni base. Needless to say, the government ought to do its utmost efforts to dissolve local concerns.

(6) Three months of Fukuda administration: In anguish over "negative legacy"

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YOMIURI (Page 4) (Full)  
December 27, 2007

Decision

Prime Minister Yasuo Fukuda met at his office in the Prime Minister's Official Residence (Kantei) with former Chief Cabinet Secretary Kaoru Yosano on Dec. 21 around 2:00 p.m. They discussed

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how to settle the class-action suit filed by hepatitis C patients.

"You will get into trouble if you take no action now. It's better to settle the case as quickly as possible. One idea for that end would be to establish a law initiated by Diet members" Yosano told Fukuda, taking out a piece of paper and putting it on the table. What was written on the paper was the key points of legislation intended to rescue those patients by offering uniform compensation, as called for by the plaintiffs. The legislation was outlined by Yosano, based on the results of his discussions with officials from the Ministry of Justice (MOJ).

Reading the memo presented by Yosano, Fukuda said: "I see. Preparations having gone this far, the legislation is likely to take shape quickly." He then decided to enact a bill initiated by lawmakers and telephoned Liberal Democratic Party's (LDP) Policy Research Council Chairman Sadakazu Tanigaki to tell him to work on drafting a bill.

Some in the LDP had previously called for uniform compensation, but Fukuda did not side with them when he announced a settlement offer on Dec. 20.

If the government uniformly provides compensation even to those for

whom the court said the government is not responsible, this action will be seen as a typical case of populism.

Fukuda, who dislikes dramatizing events, did not want to see his government in favor of populism, but when his settlement offer was rejected by the plaintiffs, he turned around in only one day, sensing that he was being buffeted by a heavier headwind than he had expected.

#### Litmus test

In the LDP presidential election in September, Fukuda received overwhelming support, but he now anguishes over the "negative legacy" left by Prime Minister Abe, namely, a divided Diet where the ruling bloc holds the lower-house majority, and the opposition bloc holds the upper-house majority. In order to resolve this situation, Fukuda met with the major opposition Democratic Party of Japan's (DPJ) President Ozawa in early November and sounded out the possibility of forming a grand coalition.

Various news companies' polls show the approval ratings for the Fukuda cabinet declining, owing to the lack of remarkable results in domestic affairs and the recent revelation of the difficulties in resolving the debacle over pension premium payment records.

On Dec. 12, Fukuda said it had become difficult to identify all of 50 million pension records and he noted: "Even though those records are not identified, I don't think this necessarily can be seen as a breach of our policy pledge." But because of this comment, Fukuda

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came under heavy fire from the opposition parties, with DPJ President Ozawa arguing, "That attitude shows disrespect of the nation."

Fukuda, realizing that matters could not be worse, made an about-face in order to deal with the suit brought by the hepatitis C sufferers and decided to create a law initiated by lawmakers in order to provide uniform compensation to them.

Fukuda is trying to open a "new path" in the current divided Diet by using the constitutional provision that a bill passed by the Lower House, and upon which the Upper House makes a decision different from that of the Lower House, becomes a law when passed a second time by the Lower House by a majority of two-thirds of the members present. The new antiterrorism special measures bill aimed at resuming the Maritime Self-Defense Force's refueling mission in the Indian Ocean will be the litmus test for this.

If the bill is approved, the DPJ may submit a censure motion against the prime minister, which could trigger a dissolution of the Lower House.

#### Sealed remark

"Progress?" President Bush retorted, showing his disapproval during the Japan-U.S. summit held in the White House on Nov. 16, when Fukuda touched on the North Korean issue by saying, "I welcome progress in U.S.-North Korea relations. I think it is important for the countries concerned to move forward simultaneously."

When Fukuda was about to express his concern over America's move to delist North Korea as a state sponsor of terrorism, Bush made the above remark.

Speaking of the move by Assistant Secretary of State Christopher Hill to have North Korea abandon its nuclear programs, Bush noted, "I am dissatisfied with the process," and eloquently expressed his distrust of North Korea.

Fukuda eventually "put a seal" on voicing his concern about America's move to delist the North because he was able to confirm Bush's attitude toward the North.

Back home, however, many expressed concern that the abduction issue would be left behind. When it is difficult to yield results in



domestic affairs, diplomacy is an important tool to boost his administration. Fukuda's failure to raise an objection to the question of delisting North Korea could give a bad impression of his first overseas trip.

Considering this possibility, the Foreign Ministry gave this explanation to reporters: "During the summit meeting, the leaders of the two countries confirmed the importance of bilateral cooperation in dealing with issues including the question of delisting North Korea as a state sponsor of terrorism." But the ministry refrained from revealing the details of the exchanged views between the two leaders, noting that this was a promise made to the U.S.

Three months have passed since Fukuda became prime minister. His first task next year will be passing the antiterrorism special measures bill, as he promised during the summit meeting with Bush. The question is whether Fukuda will move to dissolve the Lower House

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for a snap general election, taking into account such political calendars as the upcoming ordinary session of the Diet and the Group of Eight summit conference at Lake Toya in Hokkaido.

Fukuda's anguish is likely to continue for some time.

(7) New policy clique in the Diet

ASAHI (Page 4) (Slightly abridged)  
December 22, 2007

The pattern of relations between politicians and business leaders is now undergoing a change as the annual battle over tax code revisions reaches a year-end climax and a maneuvering to revise the system of the medical-fee reimbursement to hospitals intensifies. Business circles seeking changes now target not only the ruling parties but also the Democratic Party of Japan (DPJ or Minshuto), which controls the Upper House. Under such a situation, there have appeared "new breed of special interest legislators (zokugijin)" ready to listen to the petitions. Mid-ranking lawmakers of the LDP are seen as now asserting their importance, elbowing away those veteran members of established Diet policy cliques who may stand in their way. A tug-of-war involving business circles is under way behind the scenes in the Diet, where the opposition camp holds a majority in the Upper House.

DPJ becomes new point of contact for lobbyists

The DPJ on Dec. 21 held a plenary meeting of the Tax System Research Commission at party headquarters. Chairman Hirohisa Fujii explained the party's draft tax code revision guidelines centering on the reallocation of special-purpose road construction revenues for other purposes. Members of the road policy clique lashed out at Fujii. Decision-making was postponed. Senior Vice Minister for Land, Infrastructure and Transport Yasuhiro Oe of the DPJ's Next Cabinet (shadow cabinet), who spearheads the drive of those opposing the panel's proposal, told reporters after the meeting, "We have submitted our opinions that we have assembled over the past two months. We cannot possibly accept the panel's proposal." Fujii, a former Finance Ministry official who once served as finance minister, used to be a member of the finance policy clique before the Finance Ministry was reorganized. He called in Land, Infrastructure and Transport Minister Hiroyuki Nagahama of the Next Cabinet to his office and urged him to accept the panel's draft, arguing, "The reallocation of road funds is in the DPJ's constitution." However, Nagahama rejected Fujii's plea, saying, "If we do it in compliance with our party's constitution, there will be a harmful effect."

In contrast to the LDP, the DPJ has no road policy specialists. However, when Oe and Nagahama were elected in the July Upper House election and assumed posts responsible for convening meetings of the party's land, infrastructure and transport division, local petitioners have begun visiting them. A number of heads of local governments far away from their home constituencies have begun asking them to secure road funds for their communities.

The four road-related public corporations were privatized during the Koizumi administration. The Abe administration at the end of last year decided at a cabinet meeting to reallocate surplus portions of road funds for other purposes. Those who were characterized as "forces of resistance" in those processes have now launched a

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petition offensive targeting the DPJ, which now controls the Upper House. Nearly 40 Lower and Upper House members signed their names on a request paper calling for the securing of road funds. A certain senior official at the Land and Infrastructure Ministry who has long experience in negotiations with the LDP, pointed out, "What is happening in the DPJ is almost the same as what the LDP previously experienced when the road policy clique confronted the former finance policy clique."

LDP lawmakers belonging to policy cliques respond to requests from industrial circles and serve points of contact for the petitioners. The industries return the favor by delivering votes. The deep ties that had existed between the LDP and industrial associations were truncated during the Koizumi administration. Proportional representation candidates for the July Upper House election, who ran on the LDP ticket recommended by the All Japan Doctors' Federation (Nichiiren), the Japan Nursing Federation and the All Japan Land Improvement Political Federation, all lost their elections.

The LDP has started reconstructing ties with industrial associations since Fukuda took office as prime minister. The DPJ is trying to cut into LDP supporters. This is where the new Diet policy cliques came into existence.

LDP: Eto aims at becoming mainstreamer

Former Health, Labor and Welfare minister (MHLW) Hidehisa Otsuji half sarcastically introduced Upper House member Seiichi Eto of the LDP at his fund-raising party held at a Tokyo hotel on Dec. 18: "When everybody was satisfied, thinking, 'this is perhaps all we could do,' Mr. Eto alone was bracing himself up, saying, 'This is not enough.'"

Otsuji was referring to the revision of the system of the reimbursement of medical fees to hospitals under the medical insurance system for fiscal 2008. The mainstay portion of the reimbursement, which had been slashed during the Koizumi administration, was raised 0.38 PERCENT for the first time in eight years. Otsuji, who fine-tuned opinions along with former MHLW Minister Yuya Niwa, distanced himself from Eto, who was loudly calling for a substantial increase.

Though Eto, who served as Lower House Health, Labor and Welfare Committee chairman and senior vice MHLW minister, had been viewed in the LDP as a member of the health, labor and welfare policy clique, he was a non-mainstreamer in the eyes of Otsuji. However, Eto began aiming at becoming a mainstreamer after serving as chairman of the Health, Labor and Welfare Division following the Upper House election.

Many in the DPJ are critical of the way the party's new road policy clique is behaving. Former President Katsuya Okada during a meeting of the staff members' council on Dec. 18 drove the point home to participants: "Local governments that are petitioning our party are already in the grip of the Ministry of Land, Infrastructure and Transport. We should listen to opinions of automobile drivers and people in general."

(8) Defense budget in "harsh winter" with ministry under fire for series of scandals, high-cost structure

SANKEI (Page 2) (Slightly abridged)

TOKYO 00005668 012 OF 015

December 23, 2007

In the aftermath of the arrest of former Vice Defense Minister

Takemasa Moriya for receiving bribes from a defense contractor, many of the items requested by the Defense Ministry were deleted in the process of compiling the FY2008 budget. In reinstatement negotiations between Finance Minister Fukushiro Nukaga and Defense Minister Shigeru Ishiba yesterday, the value of restored items was only approximately 300 million yen, including the establishment of a Self-Defense Force intelligence-integrity unit (tentative name). The defense budget for next fiscal year will record the lowest level since FY1995.

Defense Minister Ishiba said in a ministry meeting held after the negotiations with Nukaga: "This year was a relentless year for the Defense Ministry."

Moriya was found to have received bribes from defense contractor Yamada Corp. in return for influence peddling. This scandal worked to the serious disadvantage of the Defense Ministry in the budget-compilation process.

The ministry had made a budgetary request to improve the radar performance of 32 F-15 fighters, but the expense for only 20 fighters was approved. The ministry also hoped to purchase AH-64D Apache attack helicopters, but the budget bill included no outlays for even one unit.

The Defense Ministry concluded contracts with Yamada Corp., based on estimates padded by the defense contractor, to purchase an engine for CX next-generation transport aircraft and a vehicle to reconnoiter areas contaminated by biologically destructive gases. But outlays for them were not included in the budget bill.

In procuring equipment, the ministry needs to enter into licensing agreements with foreign manufacturers and starts domestic production. Given this, the prices of such products tend to be more than 20 PERCENT to 30 PERCENT higher than imports. There are cases in which the cost doubles. This circumstance also made it difficult for the Defense Ministry to make an effective counterargument to the Finance Ministry.

By setting up a project team, the Defense Ministry has been reviewing the current system under which trading firms that have concluded contracts with foreign makers as their agents are able to exclusively receive orders by the ministry for equipment. The ministry set the goal of reducing the total of equipment-related costs by 15 PERCENT over the next five years. As measures to prevent trading houses from falsifying estimates, the ministry will increase the number of experts on imports stationed in the United States from the current three to 10. But the ministry remains cautious about introducing a direct contract system, because "it will be necessary to increase personnel by the thousands," according to a senior Defense Ministry official.

On the budget bill for FY2008, a ranking ministry official said: "The price of one AH-64D Apache helicopter is 8.3 billion yen, but the licensed production cost of 13.3 billion yen is added to the price. This is viewed as a typical high-cost product." But the official added: "We must use this experience as an opportunity to introduce a proper pricing system."

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(9) Watanabe: Ozawa, out of sense of crisis, proposed grand coalition

YOMIURI (Page 4) (Full)  
December 22, 2007

On an NTV program "Nakasone-so" to be aired on Dec. 22, Tsuneo Watanabe, chairman and editor in chief of The Yomiuri Shimbun Holdings, talked about the circumstances leading to the moves to establish a grand coalition between the ruling Liberal Democratic Party (LDP) and the major opposition Democratic Party of Japan (DPJ).

The following are main points from his remarks.

Terry Ito (emcee): Did you telephone Mr. (Prime Minister) Fukuda to propose a grand coalition?

Tsuneo Watanabe: No. It was Mr. Ozawa (president of the DPJ) who

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broached the idea (of establishing a grand coalition).

Terry: Did Mr. Ozawa telephone you?

Watanabe: Yes, he did. He (telephoned) me and we met. (Mr. Ozawa) insisted that "Mr. Fukuda broached the subject with Watanabe acting as a go-between, and that he did not initiate the subject, but that was not true. The news media including the Asahi Shimbun are loudly criticizing me for being mum about (the circumstances as to the idea of creating a grand coalition), but if I lose the trust of my news sources, they will never again give me information. As political maneuvering is still going on, it's impossible to reveal everything now. To comply with reporting ethics, I can't talk about what should not be talked about. I have my ethical and moral values.

Mr. Ozawa asserted that the idea was proposed by Mr. Fukuda and that the party-head talks were mediated by Watanabe, but that was not true. Rather, Mr. Ozawa felt his party faced a crisis. He believes that the DPJ will have difficulty winning a majority in the next Lower House election and will remain the minority party in the Lower House even though it will be the majority party in the Upper House. He also believes that the government can't function properly with a divided Diet, so he tried to take action to tackle the issue.

Mr. Ozawa, however, is a secretive person and didn't tell his party leaders about the idea. He thought he could convince them, but the leaders rose in revolt against him, resulting in causing a fuss over his offer to resign. Mr. Fukuda repeatedly asked Mr. Ozawa whether the DPJ would support the idea of establishing a grand coalition. Mr. Ozawa reassured Mr. Fukuda that there would be no problem. I wondered whether everything would be really OK, but the plan went up in smoke about one or two hours later. Mr. Ozawa would find himself wearing the emperor's new clothes. He thought that his party leaders would automatically support him if he made the proposal. This was the biggest reason that the grand coalition failed.

Terry: What were the conditions for the grand coalition?

Watanabe: A policy consultative body should be established to pass the antiterrorism special measures bill and address the question of whether to hike the consumption tax, and social welfare and pension problems. There was no question that both Mr. Ozawa and Mr. Fukuda met with the intention of doing something good for the people. I'll

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write all (about the background) to the events sometime in the future.

Terry: What would Mr. Ozawa's position have been in the grand coalition?

Watanabe: He would have been vice prime minister without portfolio. It was decided that the LDP would have 10 cabinet posts, the DPJ six and the New Komeito one. It was agreed that the six cabinet posts included the one heading the Ministry of Land, Infrastructure and Transport, the one heading the Ministry of Health, Labor and Welfare, and the one heading the Ministry of Agriculture, Forestry and Fisheries.

Terry: Will the Lower House be dissolved soon?

Watanabe: If the Lower House is dissolved, it is likely that the DPJ will retain control of the Upper House, making the division of the Diet look like it is here to stay. That will paralyze Diet business. If that happens, the two parties will have to seriously consider a grand coalition. I think they will do so.

DPJ President Ozawa: That was not true

Speaking of remarks about the circumstances leading to the moves to

establish a grand coalition made by Tsuneo Watanabe, chairman and editor in chief of The Yomiuri Shimbun Holdings, in which he said, "It was Mr. Ozawa who brought the idea of a grand coalition," DPJ President Ozawa said: "It's troublesome if I was asked about remarks made by someone who did not join the party-head talks. I don't have to make any comment on them. At any rate, that was not true."

Ozawa was replying to reporters at party headquarters.

(10) Editorial: Political support imperative to promote regulatory reform

NIKKEI (Page 2) (Full)  
December 27, 2007

The government's Council for Regulatory Reform, chaired by Nippon Yusen K.K. Chairman Takao Kusakari, submitted its second report for this fiscal year to Prime Minister Yasuo Fukuda. The report lists specific measures to enhance economic growth by boosting convenience for consumers and correcting costs mainly in areas where high barriers have been erected by vested interests, such as the medical service and agriculture areas.

Regulatory reform has tended to be put on the backburner in the Fukuda administration's economic policy. The panel planned to submit the report earlier than this week, but it had to put it off because of opposition from the Liberal Democratic Party's policy cliques in the Diet acting in tandem with industrial groups that will be negatively affected by the proposed reform plans. This action proves that the administration's domestic base has weakened. There are few scenes in which State Minister for Regulatory Reform Fumio Kishida demonstrated leadership to support the views of economists and academics who are panel members.

The prime minister has reiterated the increased need for policy measures that will promote economic growth against the backdrop of economic globalization and population decrease. To that end, it is

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imperative to carry out regulatory reform. The government should be aware that this difficult challenge will not move forward without political support.

The report places importance on the reform of social regulations in line with the former Abe administration's stance.

The Pharmaceutical Affairs Law requires hospitals to obtain approval from the Ministry of Health, Labor and Welfare (MHLW) for providing for both health insurance and private treatment. The report calls on the ministry to abolish this requirement, which has hindered the wide use of the so-called double-billing system. The ministry remains cautious about completely deregulating the double-billing system, but it intends to remove the approval requirement. The government should accelerate the speed of discussion in the direction of completely deregulating the system in the future.

To cope with the shortage of doctors, the report calls for measures to lighten the excessive burden now being levied on doctors, for instance, by allowing nurses to be responsible for dose adjustment based on doctors' prior instructions and care givers to use aspirators in nursing facilities for the patients. MHLW has decided to ease related regulations by next fiscal year.

As measures to improve the fixed-rate system for remuneration for medical treatment, the panel proposes also introducing a flat-rate system for hospitalization, in addition to the daily-fixed-rate system. Such regulatory reform measures in the medical area must be powerfully carried out in order to increase the benefits of patients and the people.

To assist in child rearing, the panel calls for a new system to authorize even those without having a care-taker's credential as "child-care givers" engaged in daycare service on the condition that they will receive basic training. The Tokyo Metropolitan Government has already adopted such a system on a trial basis. The report urges the central government to introduce this system.

In the education area, the panel suggests that the government take steps for a system that allows parents to send their children to public schools outside their school zones to be widely used. In the agricultural area, it proposes digitalizing farmland data kept separately by agricultural cooperatives and agricultural committees and publicizing it, with the aim of increasing market opportunities. The Education Ministry and the Ministry of Agriculture, Forestry and Fisheries should implement these measures promptly.

The Democratic Party of Japan also a number of opponents to regulatory reform, but it is now imperative for both the ruling and opposition parties to work together to promote reform plans; otherwise, the people will give both camps the thumbs-down.

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